

NISA Investment Advisors, LLC
Directed Beta Overlay Program
Recommendation of Public Markets External Manager Group

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NISA Investment Advisors, LLC

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1. Recommendation

PSERS IO and Verus recommend retaining up to \$10 billion in liquid markets exposure through a Direct Beta Overlay Program, managed by NISA Investment Advisors, LLC

Firm Name	NISA Investment Advisors, LLC
Recommended Commitment Amount	\$10 billion in Directed Beta Overlay
Existing Relationship	No
Asset Class / Sub Asset Class	Directed Beta Overlay program (exact asset classes are directed by PSERS staff)
Investment Office Professionals Due Diligence Team ("IOP")	Carl Lantz, Senior Portfolio Manager Emily Detz, Intermediate Investment Professional
Investment Office Oversight	Carl Lantz, Senior Portfolio Manager
External Consultant Oversight	Verus
ESG Policy (Y / N)	Yes

- NISA will retain exposures currently managed internally within PSERS' Strategic Implementation Portfolio (SIP)
- NISA will also manage a collateral account of \$2.5B to support these exposures and will take full ownership of the collateral posting functions on behalf of PSERS

2. Background on SIP and Regulatory Changes

- PSERS' Strategic Implementation Portfolio (SIP) provides exposure to a range of assets via total return index swaps
- Regulatory burdens continue to increase
 - Uncleared Margin Rules (UMR) began to be implemented in 2016 and initially impacted a handful of firms
 - "Phase 6" implementation of UMR was effective September 2022 for PSERS; requires entities with more than \$8B in notional OTC (inclusive of FX hedges) to post significant levels of initial margin (IM) with their derivatives counterparties
- SIP is currently managed by an internal staff of ~4 people and additional internal resources are needed to keep this in-house
- NISA is better placed to manage SIP for PSERS going forward and the management fee is commensurate with services provided

3. Introduction to NISA Advisors LLC

- Managing overlay strategies since 1998
- \$189B in derivatives notional; top-10 clients average \$14B in derivatives
- Manages derivatives for 8 public pension funds
- 394 employees where 86 employees have equity participation
- Invests heavily in technology – both internally developed and external systems

4. Case for NISA

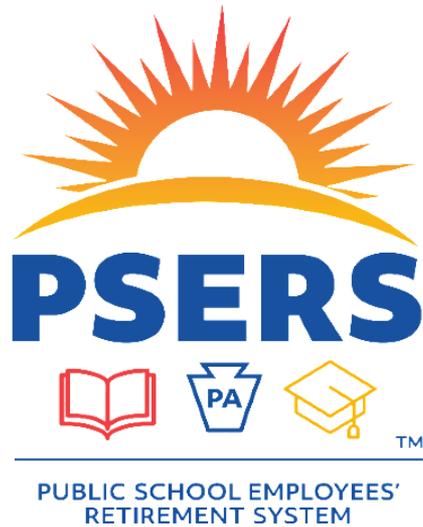
- NISA is very well resourced
- Bringing the existing PSERS SIP program up to required institutional quality would require significant investment

NISA vs Current SIP and Required SIP			
Attribute	SIP Internal (Current)	SIP Internal (Required)	NISA Advisors
Trading Personnel	✓	✓	✓✓✓
Operations Personnel	✓	✓✓	✓✓✓
Legal Resources	✓✓	✓✓✓	✓✓✓
Number of Counterparties	✓✓	✓✓✓	✓✓✓
Performance Attribution Detail	✓✓	✓✓✓	✓✓✓
Overall Level of Controls	✓	✓✓✓	✓✓✓
Low Cost	✓✓	✓	✓✓✓

- NISA has 394 employees: Portfolio Management (72), Client Service/Investment Strategies (99), Legal/Compliance/Risk (25), Operations (64), Performance (8), IT (89), and Administration (37)
- PSERS Internal SIP has ~4 employees

5. Implementation Considerations

- Collateral Management by NISA
 - SIP portfolio requires ~\$2.5B in collateral
 - NISA would take full ownership of the collateral posting functions
- Asset Allocation Decision Making
 - The current PSERS asset allocation process will remain unchanged and PSERS will retain the authority to direct the exposures in SIP
- Considerations
 - Should the Board approve NISA, many steps will remain ahead of the engagement going live, including negotiating and executing an Investment Advisory Agreement, opening appropriate accounts at BNYM, and establishing operational workflow with NISA
- **The “go-live” date of the NISA engagement, should the Board approve, is anticipated to be in mid-2024.**



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